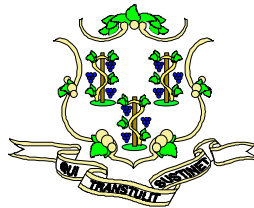


The Contribution of the Groton Naval Sub Base and the Electric Boat Company to the Economies of Connecticut and Southeastern Connecticut

State of Connecticut



Economic Impact Analysis

Executive Summary

May 3, 2005

THE CONTRIBUTIONS OF THE NEW LONDON NAVAL SUB BASE AND THE ELECTRIC BOAT COMPANY TO THE ECONOMIES OF CONNECTICUT AND SOUTHEASTERN CONNECTICUT

A Department of Economic and Community Development Economic Impact Analysis

EXECUTIVE SUMMARY

At the direction of Governor M. Jodi Rell, the Connecticut Department of Economic and Community Development (DECD) has conducted a study to estimate the contributions that the U.S. Naval Submarine Base New London in Groton Connecticut (New London Naval Sub Base) and the Connecticut operations of the Electric Boat Company make to the Connecticut and Southeastern Connecticut economies.

The New London Naval Sub Base is subject to the BRAC process, as are all domestic military installations. Connecticut has cause to be concerned as the New London Sub Base was considered for closing in previous BRAC rounds and competition for location or realignment of base operations is likely from a number of sites. This report presents the results of that analysis.

Introduction

The New London Naval Sub Base, located on the eastside of the Thames River in Groton, Connecticut, has been an integral part of Connecticut's maritime history dating back to 1868 when the State gave the Navy 112 acres of land along the Thames River to build a Naval Station. Since that time, the base has been fully operational during two world wars, the Korean and Vietnam conflicts, the Cold War stand off between the United States and Soviet Russia and most recently the Gulf War, the wars in Afghanistan and Iraq, and the international war on terror. Even though the nature of these conflicts has changed over the years, the U.S. submarine force continues to play a vital role in our national defense, and the New London Naval Sub Base is at the forefront of this changing mission. It has evolved into a unique facility that combines submarine operations with specialized training and cutting-edge submarine warfare research and development.

The co-location of the Sub Base with the Sub School and the various research and development tenant commands creates a synergistic effect that results in the "whole being greater than the sum of its parts." The close proximity of these entities results in the free flow of information and ideas that create greater operational efficiencies and enrich the educational environment. Further enhancing the capabilities, efficiencies and benefits of the Sub Base's configuration and location is its close physical and working relationship with the Electric Boat Company.

The U.S. Navy considers that Electric Boat, by virtue of its vast experience and innovation, is the world's premier resource for submarine technology. Electric Boat has maintained this position since designing the very first submarine for the U.S. Navy, HOLLAND, over one hundred years ago. The experience and innovation offered by

Electric Boat has been, and remains, the dominating influence in development of nuclear powered submarines in this modern era.

The inherent strength of Electric Boat derives in great measure from its enduring dedication to one product, for one customer. Electric Boat designs, builds, and supports submarines for the U.S. Navy. This dedication means that submarine technology is Electric Boat's number one priority. This dedication provides the U.S. Navy with the best submarines in the world.

The Contributions of the New London Naval Sub Base and the Electric Boat Company

While there has been a relationship between the operational submarines at New London Naval Sub Base and the ship designers and builders at Electric Boat, only in the last six years has the interdependence become essential to both facilities.

The Sub Base and its tenant commands depend on Electric Boat to provide the skilled tradespersons, supervision, and engineering support required to perform most Intermediate-level maintenance on the ships stationed there. Similarly, Electric Boat needs the work on the submarines at the Sub Base to maintain its skilled workforce above the "critical mass" level in the current submarine Low Rate Procurement (LRP) environment.

The results of this study confirm the fact that the New London Naval Sub Base and the Electric Boat Company are significant and critical parts of the Connecticut and Southeastern Connecticut economies.

The Navy's Sub Base in Groton, Connecticut, and Electric Boat, within short commuting distances of each other, work closely together to maintain the Navy's nuclear submarine force. This partnership is significant and can support not only scheduled routine maintenance and modernization, but also emergent or unscheduled work requiring technical expertise, depot level capabilities and a skilled resource-pool to accommodate surge requirements. The complementary Sub Base/Electric Boat Company relationship affords the government savings as well as efficiency and skilled resource flexibility, creating a synergy that is critical to the Navy and national defense.

Some Key Findings Are:

New London Naval Sub Base

- Contributes approximately \$841 million to Connecticut's GSP on average annually.
- Increases personal income for Connecticut residents by approximately \$431 million on average annually.
- Creates 6,794 direct jobs and approximately 2,537 indirect jobs in Connecticut.

- Contributes approximately \$29 million in net new revenue to the state on average annually.
- Contributes approximately \$519,000 in net new local/regional revenues on average annually.

Sub School

- Contributes approximately \$434 million to Connecticut's GSP on average annually.
- Increases personal income for Connecticut residents by approximately \$230 million on average annually.
- Creates 3,573 direct jobs and approximately 1,137 indirect jobs in Connecticut.
- Contributes approximately \$16 million in net new revenue to the state on average annually.
- Contributes approximately \$139,000 in net new local/regional revenues on average annually.

Combined New London Naval Sub Base and Sub School

- There are 7,800 military personnel stationed at the base and over 650 reservists drill there annually. The base employs 1,400 civilians and over 1,000 contractors. Annual military and civilian payroll is approximately \$452,000,000. The main base currently occupies more than 687 acres with approximately 230 major buildings that have an approximate replacement value of \$914,000,000.
- Contributes approximately \$1.3 billion to Connecticut's GSP on average annually.
- Increases personal income for Connecticut residents by approximately \$666 million on average annually.
- Creates 10,367 direct jobs and approximately 3,673 indirect jobs in Connecticut.
- Contributes approximately \$44.7 million in net new revenue to the state on average annually.
- Contributes approximately \$601,200 in net new local/regional revenues on average annually.

Note: Scenarios are not cumulative because they were run independently of each other within a dynamic model.

Electric Boat Company

- The company's Connecticut work force is approximately 8,750 employees: 8,250 at the Groton shipyard and 500 on-site at the New London Naval Sub Base. The Groton shipyard is a 2.9 million square foot facility.
- Contributes approximately \$2.0 billion to Connecticut's GSP on average annually.
- Increases personal income for Connecticut residents by approximately \$1.3 billion on average annually.
- Creates 8,250 direct jobs and approximately 9,208 indirect jobs in Connecticut.
- Contributes approximately \$117.6 million in net new revenue to the state on average annually.
- Contributes approximately \$6.4 million in net new local/regional revenues on average annually.

Study Mechanics

Two econometric models were used to estimate the contributions of the New London Naval Sub Base and the Electric Boat Company to the Connecticut and Southeastern Connecticut economies: the REMI Policy Insight model and the Federal Bureau of Economic Analysis's RIMS II multipliers.

Two different models were used in the preparation of this study in an effort to take advantage of the respective strengths and differences of each. The REMI Policy Insight™ Model provides a quantitative, dynamic, and theoretically based projection of the Sub Base, School, and the Electric Boat Company impacts on the economy over time. In this approach, a simulation is "run" using economic variable values as inputs. Then, the "difference" in the simulation forecast from the control forecast represents the "economic impact." The RIMS II modeling approach conveys the interaction among industries well, but is static, representing only a one-time effect rather than over a period of years. So annual averages in REMI Policy Insight™ Model are the closest comparable measure to the RIMS II multiplier effects if the latter were to persist in each successive year over time.

The effect of the closure of the New London Naval Sub Base would be an annual loss to the Connecticut and Southeastern Connecticut economies of approximately \$1.3 billion in GSP and approximately 14,040 direct and indirect jobs. A loss of this magnitude

would be disastrous for Southeastern Connecticut and certainly a heavy blow to Connecticut's overall economy.

Contribution Implications in Light of the Current Round of Base Realignments and Closures

The Department of Defense (DOD) is currently in the process of preparing its recommendations for the closure and realignment of existing U.S. military installations. These recommendations will be forwarded to the Base Realignment and Closure Commission (Commission) on or about May 16, 2005. Based on the DOD report the Commission will prepare its own recommendations. The Commission will then forward their recommendations to the President. If approved by the President, the recommendations will be forwarded to Congress for legislative action.

The state has reason for concern, as the New London Naval Sub Base appeared on the base closure list in previous BRAC rounds.

In light of the possibility of a closure of the New London Naval Sub Base, it is additionally important to examine the unlikely but possible economic consequences associated with a closure of the facility on the Electric Boat Company. The Sub Base depends on the Electric Boat Company to provide the skilled tradespersons, supervision, and engineering support required to perform most Intermediate-level maintenance on the ships stationed there. Similarly, the Electric Boat Company needs the work on the submarines at the Sub Base to maintain its skilled workforce above the "critical mass" level in the current submarine Low Rate Procurement (LRP) environment.

The complementary Sub Base/Electric Boat Company relationship affords the government savings as well as efficiency and skilled resource flexibility, creating a synergy that is critical to the Navy and national defense. As such, the closure of the New London Sub Base would have the effect of eliminating from the local and state economies one of the largest employers in the county and the state and reduce the workload of the Electric Boat Company.

In summary, the data indicate that the joint contribution to the GSP of the combined New London Naval Sub Base, Sub School, and the Electric Boat Company is approximately \$3.3 billion and approximately 31,500 jobs. A contribution of this magnitude is vitally important to Southeastern Connecticut and the state of Connecticut as a whole.

However, it should be noted that in a recent statement issued by John P. Casey, President of the Electric Boat Company to the Commissioner of DECD, Mr. Casey remarked, "*We have stated publicly on numerous occasions that Electric Boat fully intends to remain in business. We have a significant backlog with the Virginia Class submarine program as well as design and engineering work associated with a variety of Navy programs. We would be a somewhat different business if the Base were to be lost, however, we expect to remain the Navy's preferred provider of nuclear submarine capability.*"